

ARIZONA-AMERICAN WATER COMPANY, INC.

DOCKET NO. W-01303A-05-0718

REBUTTAL TESTIMONY

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

February 21, 2007

1	INTRODUCTION	1
2	RUCO'S REBUTTAL COMMENTS.....	3
3		

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Have you filed any prior testimony in this case on behalf of RUCO?

A. Yes, on January 24, 2007, I filed direct testimony with the Arizona Corporation Commission ("ACC" or "Commission") on Arizona-American Water Company's ("Arizona-American" or "Company") Revised Application filed with the Commission on September 1, 2006.

Q. Please state the purpose of your rebuttal testimony.

A. The purpose of my rebuttal testimony is to provide additional comments on Arizona-American's Revised Application which seeks an accounting order and an increase in existing hook-up fees to finance the construction of a surface water treatment facility, known as the White Tanks Plant, for the Company's Agua Fria District.

...

1 Q. Has RUCO changed its original position on the Company's request for an
2 accounting order and an increase in the existing hook-up fees to finance
3 the construction of the White Tanks Plant?

4 A. No. RUCO has not changed its original position on either the Company-
5 requested accounting order or the hook-up fees as proposed in the
6 Revised Application. RUCO still believes that the Company's Option 2 will
7 result in less AFUDC accruals than will Option 1, and is therefore still
8 preferable.

9

10 Q. Does RUCO still believe that certain aspects of the Revised Application
11 need clarification?

12 A. Yes. RUCO still believes that Arizona-American needs to clarify how the
13 hook-up fee would be modified in the event that a third party purchases
14 capacity in the treatment plant. Further, RUCO is still requesting that the
15 Commission indicate in its decision on the Revised Application that it is
16 not predetermining the appropriateness of any such modifications to the
17 hook-up fee or the appropriateness of any request for a mechanism to
18 recover operation and maintenance costs.

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RUCO'S REBUTTAL COMMENTS

Q. Have you had an opportunity to review the direct testimony of the other intervenors that have filed direct testimony in this filing?

A. Yes. I have had the opportunity to read the direct testimony filed by Maricopa County Municipal Water District Number One ("MWD") and various developers who have intervened in the case.

Q. Please summarize your rebuttal comments.

A. My rebuttal comments center on the issue of imprudence that has been raised by MWD in this case.

Q. Please describe the issue of imprudence that has been raised by MWD.

A. MWD apparently believes that it would be impudent for Arizona-American, the ACC regulated utility that has the obligation to provide service, to construct the White Tanks Plant. This belief is rooted in MWD's cost estimates for the construction of a water treatment facility that is similar to the Company-proposed White Tanks Plant. Consequently, MWD is requesting that the Commission deny Arizona-American's requests, for an accounting order and for increases in the Company's existing hook-up fees, because of MWD's claims that it can build a similar facility at a lower cost.

...

1 Q. Does RUCO believe that the Commission should deny Arizona-
2 American's requests, for an accounting order and for increases in the
3 Company's existing hook-up fees, because of MWD's claims that it can
4 build a similar facility at a lower cost?

5 A. No. At the end of the day it is Arizona-American, and not MWD, that has
6 the obligation to provide service. For this reason Arizona-American
7 should not be denied an increase for an existing hook-up fee which is the
8 source of cost-free funds that will be used to construct the new plant
9 needed to provide potable water to future customers.

10
11 Q. What is RUCO's position on the issue of imprudence that MWD has raised
12 in its direct testimony?

13 A. RUCO believes that it is premature for the Commission to consider
14 whether the costs presented in Arizona-American's Revised Application
15 represent an imprudent expenditure at this point in time.

16
17 Q. Why does RUCO believe that it is premature for the Commission to
18 consider whether the costs that have been estimated by Arizona-American
19 in the Company's Revised Application represent an imprudent expenditure
20 at this point in time?

21 A. Because at this point in time the only thing being presented in Arizona-
22 American's Revised Application are cost estimates. No one party,
23 including MWD or any other intervenors to the case, can say with absolute

1 certainty that the estimates presented by Arizona-American are what the
2 final cost of the White Tanks Plant will actually be or whether or not those
3 estimates represent imprudent expenditures. The Commission generally
4 makes judgments regarding impudence after expenses are incurred –
5 specifically during a rate case proceeding when a determination has to be
6 made on whether or not a utility's requested level of plant should be
7 placed into rate base. In this way, customers are protected from having to
8 pay rates that would allow a utility to recover costs that were incurred
9 imprudently. In this particular case, it has to be remembered that the
10 water treatment facility is going to be financed by hook-up fees that will be
11 booked as contributions in aid of construction ("CIAC"), which has the
12 effect of decreasing rate base and lowering rates.

13
14 Q. Would customers who pay the hook-up fees, either directly or indirectly
15 (e.g. through the final price of a home purchased from a developer) be
16 protected if the Commission were to determine that costs were incurred
17 imprudently during a future rate case proceeding?

18 A. Yes. The Commission, which has regulatory oversight over Arizona-
19 American and not MWD, can make hook-up fees refundable to the owner
20 of record (i.e. the developer or homeowner who paid the hook-up fees
21 either directly or indirectly) for any portions of the White Tanks Plant that
22 may be deemed imprudent.

1 Q. Why does RUCO believe that any refunds associated with imprudent
2 costs should be returned only to the owners of record?

3 A. Because the owners of record are the ones who will have actually paid the
4 hook-up fees (either directly or indirectly) that will have financed the White
5 Tanks Plant. RUCO does not believe that it would be fair to distribute the
6 refunds to all of the Company's Agua Fria District's customers since not all
7 of them would have paid the hook-up fees. This position is consistent with
8 RUCO's long-standing belief that hook-up fees should be implemented so
9 that growth pays for growth and that current customers should not have to
10 pay for plant that is built to serve new growth. Thus, if anticipated growth
11 doesn't materialize, the current customers are not saddled with increased
12 rates. Conversely, current customers should not be entitled to a refund for
13 imprudent plant that was built to serve new customers (i.e. owners of
14 record) who paid for the plant through the hook-up fees that were strictly
15 charged to them.

16
17 Q. What would RUCO recommend the Commission do at this point in time to
18 insure that owners of record are protected from imprudent expenditures
19 and receive any refunds they might be entitled to if a finding of
20 imprudence is made in a future rate case proceeding?

21 A. RUCO believes that the Commission should order Arizona-American to
22 maintain a list of owners of record so that any future refunds can be made
23 to them in the event of a finding of imprudence.

1 Q. Does this conclude your testimony on Arizona-American's Revised
2 Application?

3 A. Yes.